



Indiana Department of Education

SUPPORTING STUDENT SUCCESS

MEMORANDUM

TO: School Superintendents

FROM: Melissa K. Ambre, Director
Office of School Finance

DATE: February 28, 2011

SUBJECT: Qualified Zone Academy Bonds

The Federal Government has awarded Qualified Zone Academy Bonds for calendar year 2011 in the amount of \$8,001,000. Coupling the new allocation with the 2010 QZAB funds remaining, which total \$9,962,618, there is now \$17,963,618 in funds available to Indiana schools. **The Office of School Finance will accept applications from March 1, 2011 through July 1, 2011 and grant awards on a first come first serve basis until the allocation is fully committed.**

Federal Notice 2011-19 defines a qualified zone academy as “any public school, or academic program within a public school, which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level provided: (A) the public school or program is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates and prepare students for college and the workforce; (B) students will be subject to the same academic standards and assessments as other students educated by the eligible local education agency; (C) the comprehensive education plan is approved by the local education agency; and (D)(i) such public school is located in an empowerment zone or enterprise community including such designated after October 3, 2008; or (ii) there is a reasonable expectation (as of the date of the bond issuance) that at least 35% of the students will be eligible for free or reduced cost lunches under the school lunch program established under the National School Lunch Act.”

The Indiana Department of Education will limit allocation requests to two million dollars (\$2,000,000) per school district. **The proceeds of the bonds can be used for rehabilitating and repairing a public school facility; providing equipment; developing course materials; and training teachers and other school personnel. QZABs may not be used to construct a new facility.** Allocations awarded in 2011 must be issued by December 31, 2013 and the proceeds must be spent within three years of the date of issuance.

Eligibility requirements for a QZAB include being located in an empowerment zone or an enterprise community or there must be a reasonable expectation that the school applying will have at least 35% of its students eligible for free and reduced lunch program. Additionally, a private entity and the school corporation must have a written agreement that the private entity will contribute not less than 10% of the proceeds of the bond issue.

Attached is additional information on Qualified Zone Academy Bonds along with an application for the program. Questions regarding this program may be directed to Melissa Ambre, Director, Office of School Finance, at 317-232-0840 or by email at mambre@doe.in.gov

Qualified Zone Academy Bond Financing Program

The federal government has enacted a program which allows school corporations to obtain interest-free financing for the purpose of establishing “qualified zone academies.” Qualified zone academies are schools, or programs, or programs within a school, which are located in economically distressed areas and whose curriculum is designed through school/business partnerships. The program provides an incentive in the form of federal tax credits to lenders who purchase bonds from issuing school corporations.

How the Qualified Zone Academy Bond Financing Program Works

To provide capital financing for these new programs, eligible public school corporations will be permitted to issue zero-interest bonds for sale to eligible holders. The holders of the bonds will receive a tax credit on their federal income tax returns intended to compensate them for the value of the foregone interest. The amount of the tax credit is based on the face amount of the bonds and a credit rate established by the Secretary of the Treasury. The Secretary of the Treasury will also establish a maximum term for each bond issue. Information concerning the credit rate may be found at the following website: <https://www.treasurydirect.gov/GA-SZ/BPDLogin?application=GA-SZ> School corporations must keep in mind that there is no guarantee that eligible lenders will elect to purchase these bonds.

Eligibility Requirements

Here is a summary of the various requirements that public school corporations must meet in order to use this financing mechanism.

1. Public schools must either be located in an Empowerment Zone or Enterprise Community or have at least 35% of the school's students eligible for the free and reduced lunches under the National School Lunch program.
2. The proposed program must be designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce. Students in the proposed programs must be subject to the same standards and assessments as other students. Post-secondary education and training programs are not eligible.
3. The public school corporation must have written commitments for contributions from private entities amounting to at least ten percent (10%) of the amount of the bonds to be issued.
NOTE: Providers of services or materials for the proposed project are not eligible as contributors to meet the 10% contribution requirement and that the 10% match partner must attest that the value of the 10% match is below the fair market value offered by any entity providing similar products or services. These can include in-kind contributions, such as equipment; technical assistance; services of employees; internships; field trips or other educational related opportunities; or other property or services agreed to by the school corporation.
4. The bonds must be issued by the local public school corporation.

5. At least 95% of the bond proceeds must be used for facility rehabilitation or repair; equipment; development of course materials; or staff training, in connection with the proposed program.
6. Because there are statewide limits on the amount of bonds, which can be issued under this program, the public school corporation must receive an allocation of the statewide limit from the Indiana Department of Education (See Allocation below).

In addition to these federal requirements, any bonds issued for these purposes must also meet the requirements of Indiana law. Borrowing under this application could be consolidated with other bonding, but that portion for this program must meet the private sector matching requirements described above.

It is the responsibility of the public school corporation that issues the bonds to certify to prospective purchasers that it has met all the requirements under this program. The IRS has indicated that bondholders may rely on these certifications as if they are reasonably made. The Indiana Department of Education will not be involved in reviewing or assessing an issuer's eligibility under this program.

Potential issuers are strongly urged to consult with bond counsel before making any certifications of eligibility.

Eligible public school corporations interested in obtaining financing under this program must develop and submit a project proposal, as described in the next section. All applications received by the application deadline will be considered on a first come first serve basis. Corporations will have one year from the date of the allocation award to complete the project financing and issue the bonds.

Program Applications

Applications should be in the following format:

1. Name of the public school corporation.
2. Name of the academy (school/program) to be funded.
3. Name, street address, phone number, and email address of the contact person.
4. Amount of bonds to be issued and expected date of issuance.
5. Information as to discussions with or commitments from private lenders who have expressed a willingness to participate in the program.
6. Certification from the 10% match partner(s) that the value of the 10% match is below the fair market value offered by any entity providing similar products or services.
7. A written spending plan that includes a commitment to use 10% of the QZAB funds within six (6) months of issuance and 95% within three years of issuance.
8. Acknowledgement of Arbitrage Notification.
9. Complete description of the school or program to be funded, with specific references to the goals and expected outcomes of the programs, and description of the school/business partnerships to be involved in the program's design.
10. A listing of the school facilities owned/leased by the school corporation and the present use of each. If a facility is not being used, provide the status of the facility.
11. December 31, 2010 cash balance for the following funds: general, debt service, severance/retirement, capital projects, bus replacement, transportation, rainy day, and the overall cash balance of all funds combined including those listed above.
12. Budget for the expenditure of the bond funds.
13. Completed application signed by the superintendent of schools.

A hard copy of the application, with original signatures, must be mailed to the address above. Fax or email submissions will not be accepted.

Additional information

This sheet is a summary of the main elements of the qualified zone academy bond program. Because of the complexity of the program, with very specific eligibility requirements, no public school corporation or lending institution should participate in this program without seeking advice of legal counsel.

The statutory authorization for this program can be found in Section 1397E of the Internal Revenue Code, added by Section 226 of the Tax Relief Act of 1997 and, Section 304 of the Working Families Tax Relief Act of 2004. Proposed and temporary rules for the tax treatment of bonds issued under this program, issued by the Internal Revenue Service, were originally published in the Federal Register, on January 7, 1998. Additional information may be found in Internal Revenue Service Bulletin No. 2007-05, January 29, 2007; Bulletin No. 2009-30, April 20, 2009; Bulletin No. 2010-22, and Bulletin 2011-19.

**Indiana Department of Education
2011 Qualified Zone Academy Bond Application Program**

(Application period March 1, 2011 through July 1, 2011)

School Corporation _____ **Corp. Number** _____
County _____

Corporation Contact: _____

Title: _____

Mailing Address: _____

Telephone: _____

Email address: _____

Bond authorization requested (\$2,000,000 maximum limit): \$ _____ **amount requested**

Proof of Eligibility:

Please check one of the following options to establish the public school corporation's eligibility to participate in the Qualified Zone Academy Bond.

_____ **Location in Empowerment Zone.** The school corporation is located in Gary/East Chicago, a federally designated "empowerment zone".

_____ **Location in an Enterprise Community.** The school corporation is located in Indianapolis, a federally designated "enterprise community."

_____ **Student Demographics.** In the fall of 2010-2011 school year, at least 35% of the students attending the school or participating in the program are receiving free or reduced-cost lunches established under the National School Lunch Act. For 2011 applications, the fall 2010 National School Lunch Act student participation data will be used.

Assurance of Private Business Contribution:

The school corporation must provide written assurance of commitment from private entity(ies) to make qualified contributions totaling a present value equal to not less than ten percent (10%) of the proceeds of the bond issue. The commitment must state that the ten percent (10%) match is below the fair market value offered by any entity providing similar products and services. The ten percent (10%) contribution may include:

- Equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment;
- Technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom;
- Internships, field trips, or other educational opportunities outside the academy for students; or
- Any other property (including cash) or services specified by the public school corporation.

Attach this assurance to the application. The school superintendent and the chief executive of each participating entity must sign the assurance. Indicate by checking below the assurance is attached.

_____ Assurance **attached**.

Program Intent:

The proceeds of Qualified Zone Academy Bonds may be used only for the following purposes. Please indicate the planned use(s) of the bond proceeds:

- _____ Rehabilitating or repairing a public school **facility** in which the academy is established;
- _____ Providing equipment for use at an academy;
- _____ Developing course materials for education to be provided at an academy; or
- _____ Training teachers and other school personnel in an academy.

Project Description:

Please include a detailed description for the designated facility for which the bond proceeds will be used, including a proposed program budget. The project description should also address how the program was designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates and better prepare students for the rigors of college and the complex workforce.

_____ Project description and budget attached

Arbitrage Notification:

The proceeds of Qualified Zone Academy Bonds are subject to arbitrage and rebate requirements, currently applicable on governmental tax-exempt bonds. QZAB proceeds may not be invested at a yield greater than the yield on QZABs, which is assumed to be in the interest rate on the actual QZAB, often zero percent (0%), and any excess earnings must be rebated to the United States.

_____ Acknowledgement of Arbitrage Notification

I certify to the best of my knowledge, the information in this application is true and correct and is in compliance with statutes and administrative rules of the State of Indiana. This application is for an academy program established and operated under the supervision of an eligible local education agency (LEA), as defined in Section 14101 of the Elementary and Secondary Education Act of 1965. The Governing Board of the school corporation enumerated herein has authorized submission of this application.

School Superintendent

Date

**Mail a completed application and attachments to: Indiana Department of Education
Office of School Finance
Attn: Teresa Hemmerle
151 W. Ohio Street
Indianapolis, IN 46204**